

14.772 Development Economics: Macroeconomic Issues
Spring 2011

Lectures: TTh 2:30-4:00 in E51-361
Recitations: Th 12:00-1 in E51-151

Instructors:

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Website:

MIT <https://stellar.mit.edu/S/course/14/sp11/14.772/>

Prerequisites:

This class contributes to the fulfillment of requirements for the Development field for Economics Ph.D. students at MIT. People other than Economics Ph.D. students should consult with the instructors before enrolling. The fall class (MIT 14.771) is a prerequisite for the spring class. Students should also have taken or be concurrently taking PhD level macroeconomics, microeconomics, and econometrics.

Requirements:

There will be two problem sets for the class. One problem set will cover theoretical and empirical problems discussed in the class. The second problem set will consist of a research proposal based on the covered material. The proposal should consist of a research strategy to address questions that came up during the class. Ideally such proposals could lead to a third year paper. We will discuss your proposals during the last lecture of the class. The grade for this part of the class will be determined by both the problem sets and class participation.

Readings:

Most readings can be reached through the s on the stellar website. Please inform the TA of any broken links. You may need to be on campus to access links to copy-written materials (e.g. NBER working papers, JSTOR). Readings that are not available online will be available via library reserve.

Development Seminar:

Everyone is encouraged to attend the Development Seminar, which meets on Wednesdays, 2:30 - 4:00 p.m. at MIT in Room E51-376 and the Macro Seminar, which meets Tuesdays, 4:15 - 5:45 at MIT in the Freeman Room. The website for the Development Seminar is <http://econ-www.mit.edu/events/index.htm>. The Development Seminar begins meeting in the spring semester on February 2nd. When there is an out-of-

town speaker, we normally take the speaker out to dinner, and we will try to save a couple of spots for graduate students each time. If you are interested in coming to dinner with a particular speaker, inform Jessica Colón (MIT, 253-3807, jcolon@mit.edu).

Development Lunch:

Everyone is also encouraged to attend the Development Lunches or the Macro Lunches. Unfortunately both lunches meet at the same time, namely Mondays from 12:00PM to 1:00PM. The development lunch meets in Building E51-095, the macro lunch in the Freeman Room.

SCHEDULE

Risk Sharing

March 29: Introduction / Risk Sharing

Main Reading: Townsend, Robert (1994) "Risk and Insurance in Village India." Econometrica 62(3), 539–591.

March 31: Methods of Risk Sharing: Networks

Main Reading: Kinnan, Cynthia and Robert Townsend, "Kinship and Financial Networks, Formal Financial Access and Risk Reduction"

RECITATION 1: Basics of Risk-Sharing

April 5: Risk-Sharing Extended: Returns on Assets and Labor Supply

Main Reading:

- Samphantharak and Townsend (2009), "Risk and Return in Village Economies"
- Bonhomme, Chiappori, Townsend, Yamada, "Sharing Wage Risk"

April 7: Implications of heterogeneity: Endogenous Sorting and Matching

Main Reading:

- *Schulhofer-Wohl, "Heterogeneity and Tests of Risk Sharing"*
- *Akerberg and Botticini, "Endogenous Matching and the Empirical Determinants of Contract Form", JPE, 2002*

RECITATION 2: Testing micro underpinnings and "lotteries", based on Townsend, Paulson, Karaivanov, "Distinguishing Limited Liability from Moral Hazard in a Model of Entrepreneurship", JPE

Financial Frictions

April 12: Barriers to Risk-Sharing

Main Reading: Kinnan, Cynthia, "Distinguishing barriers to insurance in Thai villages"

April 14: Testing for the Micro underpinning

Main Reading:

- Rob Townsend and Alexander Karaivanov, "Dynamic Financial Constraints: Distinguishing Mechanism Design from Exogenously Incomplete Regimes"

Related readings:

- *Alexander Karaivanov, Sonia Ruano, Jesus Saurina and Rob Townsend (2010), "No Bank, One Bank, Several Banks: Does It Matter for Investment?"*

RECITATION 3: Caballero, Antras, Trade and Capital Flows, A Financial Frictions Perspective, JPE

April 19 NO CLASS DUE TO PATRIOTS DAY

April 21: Financial Frictions and General Equilibrium (1/2)

Main Reading: Archawa Paweenawat and Rob Townsend, "Villages as Small Open Economies," 2009

RECITATION 4: Numerical methods to calculate the equilibrium for economies with credit constraints

April 26 Financial Frictions and General Equilibrium (2/2)

Benjamin Moll, Rob Townsend and Victor Zhorin, "Entrepreneurship, Inequality and Growth with Information Constrained Factor Markets"

Welfare and the Evaluation of Impact: Reduced Form Econometrics and Structural Parameters

April 28: Policy and Welfare using Reduced Form Evidence

Main Reading:

- *Raj Chetty, "Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods", Annual Review of Economics 1: 451-488, 2009*
- *Raj Chetty, "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance, Journal of Political Economy, 116(2): 173-234, 2008.*
- *Raj Chetty, Adam Looney, "Consumption Smoothing and the Welfare Consequences of Social Insurance in Developing Economies, Journal of Public Economics, 2006*

RECITATION 5: Heckman Vytlacil, Structural Equations, Treatment Effects, and Econometric Policy Evaluation, *Econometrica*

May 3: Interpreting Reduced Form Evidence through the lens of a structural model and calibration

Main Readings:

- Kenneth Wolpin, Ex ante Policy Evaluation, Structural Estimation and Model Selection, AER PP
- Keane, Wolpin, Empirical Applications of discrete choice dynamic programming models, RED, 2009
- *Petra Todd and Ken Wolpin, "Assessing the Impact of a School Subsidy Program in Mexico: Using a Social Experiment to Validate a Behavioral Model of Child Schooling and Fertility", American Economic Review, December, 2006.*

May 5: Policy Evaluation using Structural Methods

Main Reading Rob Townsend and Kaboski, Joseph, "A Structural Evaluation of a Large-Scale Quasi-Experimental Microfinance Initiative", Econometrica

RECITATION 6: Esther Duflo, "The Medium Run Effects of Educational Expansion: Evidence from a Large School Construction Program in Indonesia", *Journal of Development Economics*

Development and IO

May 10: TBD

May 12 : Presentation of research proposals and general discussion